

Report of Director of City Development and Deputy Chief Executive

Report to Executive Board

Date: 16 July 2014

Subject: Grand Theatre

Are specific electoral Wards affected? If relevant, name(s) of Ward(s): All	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Is the decision eligible for Call-In?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Summary of main issues

1. This report considers the financial performance of the Leeds Grand Theatre and Opera House Trust Ltd and the options for its future management and governance to sustain its very significant position as one of the country's most popular receiving houses.
2. Following the successful transformation project and reopening, Leeds Grand Theatre now works with top national and international promoters. In 2012/13 and 2013/14 all shows (except one night shows) were ex-West End or Broadway. The pinnacle of this change is the association with Cameron Mackintosh who brought Phantom of the Opera and Oliver to Leeds Grand Theatre. Dirty Dancing broke all box office records and will return later this year. The current run of Wicked is completely sold out and has had tremendous reviews.
3. Notwithstanding the success of the company in terms of its programming, ongoing financial returns have demonstrated that it is not operating within its available resources. Consecutive years of significant deficit have exhausted its reserves and has required the Council to increase its grant to the company.
4. Leeds Grand Theatre and Opera House Trust Ltd (LGTOH) is a company limited by guarantee and is a registered charity. It manages three individual venues, the Grand Theatre, the City Varieties and the Hyde Park Picture House.
5. The Grand Theatre is a receiving theatre that enjoys a national reputation and forms a major component of the City's cultural infrastructure. The City Varieties is also a

receiving space and has of late enjoyed significant capital investment. The Hyde Park Picture House is the City's only art-house cinema.

6. Opera North, England's only opera company outside the capital is an internationally regarded client tenant contributing to the reputation of the theatre and delivering a regular and significant income stream through its rent.

Recommendations

7. Executive Board is recommended to:
 - i) note the current financial performance of Leeds Grand Theatre and Opera House Trust Ltd and the potential options for future governance arrangements;
 - ii) give approval for the Chief Officer Culture and Sport to commence further detailed work on the proposals, including the consultation outlined with the various stakeholders, with a view to submitting further recommendations to Executive Board later in the year.

1 Purpose of this report

- 1.1 At the June 2014 Executive Board, Members noted the concern about the financial position of the Grand Theatre and requested that the Director of City Development brings forward a report on the options for the future operation of the Company. This paper therefore provides an overview of the various options available to deliver a sustainable future for the Grand Theatre. It seeks approval to examine the current options in further detail and report back to Executive Board later in the year.

2 Background information

- 2.1 The Leeds Grand Theatre and Opera House Trust Ltd is a company wholly owned by Leeds City Council and which operates three distinct cultural venues in the City.
- 2.2 **The Grand Theatre** - The Grand Theatre (also known as Leeds Grand Theatre and Leeds Grand Theatre & Opera House) was designed by Leeds based architect James Robinson Watson and opened in 1878. The theatre is a Grade II* listed building and seats 1,550 people.
- 2.3 The first performance at the theatre was Much Ado About Nothing on 18 November 1878 and stars that have trodden the boards over the years have included Sarah Bernhardt, Julie Andrews, Morecambe & Wise and Laurence Olivier.
- 2.4 Seating 1,550 at full capacity, the auditorium provides a home for performances of all types. An enormous range of notable dance, drama, comedy and music productions have been seen at the Grand. The theatre is home to Opera North and is regularly visited by Northern Ballet. It has hosted many touring productions, musical artists and comedians.
- 2.5 The theatre closed at the end of May 2005 for a major refurbishment, entitled Transformation, and reopened on 7 October 2006 with a production of Verdi's Rigoletto. The Stalls area was completely re-seated and re-raked, the orchestra-pit enlarged, air-conditioning installed, backstage technical facilities dramatically improved and Opera North now has an Opera Centre to the south of the theatre, accessible via a bridge and at street-level. The Centre includes two new stage-sized rehearsal spaces and increased office space. The cost of the refurbishment was c £31.5 million.
- 2.6 A second phase of transformation included structural improvements and further refurbishment of the theatre, and also the restoration of the Assembly Rooms, a forgotten area on the first floor of the building. The Assembly Rooms opened in 1879 and functioned as the Plaza Cinema between 1912 and 1978 and subsequently as a rehearsal room for Opera North. With restoration now complete, the theatre has a second performance space, the Howard Assembly Room which is used for recitals, concerts, chamber operas, experimental and educational work and other events for which the main theatre is unsuitable.

- 2.7 Following the successful Transformation project and reopening, Leeds Grand Theatre now works with top national and international promoters. In 2012/13 and 2013/14 all shows (except one night shows) were ex-West End or Broadway. The pinnacle of this change is the association with Cameron Mackintosh who brought Phantom of the Opera and Oliver to Leeds Grand Theatre. Dirty Dancing broke all box office records and will return later this year. The current run of Wicked is completely sold out and has had tremendous reviews.
- 2.8 **The City Varieties** - The Leeds City Varieties is also a Grade II* listed music hall. It was built in 1865 as an adjunct to the White Swan Inn (dating from 1748) in Swan Street and the original interior is largely unaltered. It is a rare surviving example of the Victorian era music halls of the 1850s/1860s.
- 2.9 The theatre was founded by local pub landlord and benefactor Charles Thornton and was originally called 'Thornton's New Music Hall and Fashionable Lounge'. This followed from a 'Singing Room' above the inn. The name subsequently changed to the White Swan Varieties and then Stansfield's Varieties before becoming the City Palace of Varieties. Charlie Chaplin, Marie Lloyd and Houdini are among the artists who performed there. Between 1953 and 1983, the theatre achieved national fame as the venue for the BBC television programme The Good Old Days, a recreation of old-time music hall featuring Leonard Sachs. The venue still presents live "Good Old Days" music hall events over runs of 3 weekends in the spring and 4 in the autumn, as well as pantomime and a regular programme of stand-up comedy and music concerts.
- 2.10 The City Varieties was granted Heritage Lottery funds to help with major refurbishment and restoration. The theatre closed for refurbishment in January 2009, and re-opened in September 2011. The theatre now seats 467, and the sides of the balcony are closed to the public, now giving space to additional lighting.
- 2.11 **The Hyde Park Picture House** - The Hyde Park Picture House in Hyde Park was opened on 7 November 1914 and is one of the oldest cinemas in the country. As a Grade II listed building, it still boasts many original features including nine operational gas lights and a decorated Edwardian balcony. The cinema has a small stage, with a piano alongside, which is regularly used during live musical accompaniments.
- 2.12 It is the only gas lit cinema remaining in use in the UK and the oldest purpose built cinema in Leeds. It has two 35mm film projectors which are regularly used, particularly during Leeds International Film Festival, when the cinema operates as a main venue. The ornate lamp outside the entrance is also Grade II listed but no longer gas powered.
- 2.13 The cinema is open every day and screens a wide variety of films, with a focus on specialised cinema including independent, art house, classic and foreign language. There are two evening screenings every day, with matinee showings on Saturdays, Sundays and Wednesdays. Family Films play every Saturday at 12 noon and Bring Your Own Baby screenings are on during most Wednesdays at 11am. Its distinctive exterior has led to it being used as a backdrop in many films and TV programmes including the feature length TV drama A Is for Acid, the

Vanessa Redgrave film Wetherby and the two part BBC One TV film The Great Train Robbery.

- 2.14 Following the completion of the refurbishment to the City Varieties Music Hall in 2011/12, the Grand Theatre Trust has returned significant deficits as outlined in the table below:

	Trading Deficit	LCC funding	
	before LCC funding	Original	Additional
	£000	£000	£000
2011/12	650	199	
2012/13	568	183	142
2013/14	843	190	653

Notes

- 2013/14 result provisional. Additional funding in 2013/14 from LCC takes account of potential losses from the reclaiming of alleged misappropriated funds.
- In both 2011/12 and 2012/13, the company remaining deficit was met from reserves. The company no longer retains any unrestricted reserves.

- 2.15 In recent months, council officers have provided support to the Grand Theatre Trust to help them mitigate their financial overspends. This has included proposals to place the booking fee onto a more commercial footing and utilising the council's insurance policy. Although the company at this time has not set a budget for 2014/15, initial indications suggested a deficit in the order of £455k after taking account of the Council's budgeted grant of £200k, although it is understood that further options are being considered which could bring down the deficit to around £300k after the Council's grant. It is clear that the financial position and performance of the company and resulting calls upon the Council to increase its grant, has to be a significant concern, especially when considered in the context of the Council's broader financial challenges. Accordingly, it is considered timely to take a step back and review the Grand Theatre's operation, look at possible governance options and make recommendations as to how this ongoing financial trend will be reversed.

3 Main issues

- 3.1 The current governance arrangements were implemented following a decision by Executive Board in September 2006 to introduce independent members on to the Board of the company.
- 3.2 The Leeds Grand Theatre and Opera House Trust Ltd is a company limited by guarantee and is a registered charity. The board of trustees comprises five

elected members of Leeds City Council and three independent trustees. The chair of the board is an elected member. As such the operation of the facility does not sit within any directorate budget and any budget shortfalls have fallen to be met from the council's general reserves.

- 3.2 In considering the financial performance of Leeds Grand Theatre and Opera House Ltd, it is evident that there are two elements to consider:
- 3.3 Firstly, it is timely to review the governance structure of the Trust and the extent to which the current operating model is best placed to manage and govern a significant cultural asset in a way that is financially sustainable in the long-term.
- 3.4 Secondly, and also related to the above, is the need for the company to undertake a thorough and concerted review of its financial performance. Whilst Leeds City Council has assisted with advice and support, to help the company improve its financial performance, ultimately as an arm's length company, it will be for the organisation itself to seek to implement an effective range of efficiency measures so that it can operate within its budget parameters.
- 3.5 In the context of the two issues highlighted above, as the sole shareholder of the company, this report focuses on the first issue, namely the alternative governance and management options which could be considered.
- 3.6 In considering the future direction of the Grand Theatre Company, a key factor that will inform the option appraisal will be the balance struck between the financial and cultural objectives of the organisation. On that basis it is proposed that, as the sole shareholder of the Company, the Council's objectives are:
- i) for the Grand Theatre Company to operate within its available resources, including the Council's grant and to take a commercial approach to its operation.
 - ii) to continue to provide a quality and balanced programme of events and, where possible, to broaden the scope of the existing programme to enhance its national reputation.
- 3.7 Accordingly, four initial options have been identified for consideration and are summarised below.

3.8 Governance options

A range of governance options are set out below. The options can be largely divided into four main headings, some of which lend themselves to further variation. Whilst not wanting to promote any one case or solution in particular it offers an example of the pro's and con's of the various models:

- a. Retain the status quo
- b. Bring in-house to be managed by specialist LCC staff
- c. Move to a single independent trust status with larger board and independent Chair
- d. Procure a commercial operator.

3.8.a Retain the status Quo

There are some advantages to this in so much as it retains Council influence and control. However, with that control comes the responsibility to manage the Company within its financial parameters that does not default to the Council having to meet any budget shortfall on an ad-hoc or ongoing basis. Clearly in assessing this option, consideration will need to be given to the extent to which the Council can have confidence that meaningful and sustained improvement in the financial performance of the company can be secured within the current arrangements.

3.8.b Bring In-House. Manage directly by Leeds City Council, City Development Officers

This option removes the need for a Board and would place the operation of the venues on a similar footing to existing cultural venues operated by the Council. Under this option the Council would exert full control both in terms of governance and day-to-day operation, however, alongside that will be the full risk of the operation also falling directly to the Council.

3.8.c Move to a Single Independent Trust status with a larger management committee and an independent Chair

This option would give the Grand Theatre a greater degree of independence. The Trust would have freedom from administrative and financial restraints of LCC. This is a well-established model used by many other regional repertory and receiving theatres, such as the Birmingham Hippodrome as outlined in Appendix 1. The Governance of the Trust would be through a Board which could encompass 12-15 members and the Council would need to decide on the extent of any elected member representation. The Council would still own the freehold of the buildings and would still have responsibilities for certain categories of maintenance. However, alongside that the Trust would be able to take advantage of external fund raising opportunities.

A variation on this model could see the City Varieties and or the Hyde Park Picture House being separated from the Grand Theatre and having a separate governance model. The clear benefits here are that the objectives of the Trust would simply reflect the operation of the Grand Theatre. The Hyde Park Picture House would seem to be the least critical element of the current organisation's finances being well run and virtually autonomous. With a partner who could regenerate it and introduce additional activity, it would be used more often and provide greater benefits to Leeds by maximising its brand identity. Likewise the same could be said for the City Varieties and there are certainly commercial theatre companies in the market for venues of this capacity.

3.8.d Establish an Independent Trust and lease the Grand Theatre to a commercial operator/third party or simply procure a commercial operator to run the Grand Theatre on behalf of the City

This is the predominant model for receiving theatres across the UK where the management and programming of the venue is contracted to a commercial operator. This is done either by leasing from a trust or directly from a local

authority, for example, Liverpool Empire, Manchester Palace and Manchester Opera House and Cliffs Pavilion, Southend-on-Sea. A commercial operator can achieve economies of scale for staffing and programming and negotiate block bookings of shows. LCC would be protected against any deficits as all losses would be met by the operator. For interest, Scottish Opera own Glasgow Theatre Royal but lease the theatre to a commercial operator so there is certainly a precedent for a commercial operator working with a resident opera company.

The possible negatives here are that most large commercial operators deliver a narrower programming mix than independent trusts.

- 3.9 In all the highlighted examples above it may well be the case that one or all might be applicable. However, their appropriateness or otherwise to the Grand Theatre as it currently stands is determined by the circumstances of the company now in light of the on-going subsidy that the theatre requires. It is therefore proposed that the options above and any other variations that may be identified are assessed on the basis of the objectives outlined earlier in this report which were:
- i) for the Grand Theatre Company to operate within its available funding and to take a commercial approach to its operation;
 - ii) to continue to provide a quality and balanced programme of events and, where possible, to broaden the scope of the existing programme to enhance its national reputation.

- 3.10 In addition, it is relevant to note that Opera North is a singularly important cultural organisation to the city bringing in over £9m in Arts Council support. Opera North is contributing more to the Grand Theatre in rent than the company receives in Council grant and Opera North, whatever conclusions are enacted, they should play a key role in any discussions, as will Northern Ballet, which is also resident in the Theatre each year.

4 Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 Leeds Grand Theatre Company, the Board and Officers, together with Opera North, Northern Ballet and Arts Council England have been consulted. Wider consultation has not been considered appropriate pending members consideration of this report.
- 4.1.2 Should Members be minded to approve this report, further consultation with key stakeholders will be undertaken. As part of this process it is proposed that a cross-party working group is established and chaired by the Executive Member for Digital & Creative Technologies, Culture & Skills to help inform the detailed work proposed.

4.2 Equality and Diversity / Cohesion and Integration

- 4.2.1 The recommendations of this report relate to the governance of the Grand Theatre. A screening document (attached as an appendix) has been completed

and concludes that there are no specific implications for equality and diversity, nor for cohesion and integration.

4.3 Council policies and City Priorities

4.3.1 At Leeds Grand Theatre, the resident companies (Opera North and Northern Ballet) are the main employers of local creators and the Theatre fulfils a vital role in providing the performance, rehearsal (and in the case of Opera North, some administrative) space that makes their work possible. The Theatre is essentially a Number One Receiving House in the UK and as such makes a huge contribution to the well-being of the creative sector.

4.3.2 When businesses look to locate to the north, the cultural hub of the Leeds Grand Theatre and City Varieties together with resident artistic companies such as Opera North and Northern Ballet is a significant magnet. The rarity of the Hyde Park Picture House is a further attraction whilst also ensuring that its artistic film output is of benefit to the academic quarter of the city.

4.4 Resources and value for money

4.4.1 The Council budgeted grant to the company for 2014/15 is £200k. The Council may need to offer further financial assistance in order to support any governance change within the organisation over and above the level of its current grant to the company. Moreover, any of the options set out above could have implications for the level of the Council's on-going grant to the company which would need to be considered as part of the appraisal of the options, but also in the context of the Council's priorities. To enable the option appraisal to take account of all of the current theatre industry and legal issues at hand, the Council may need to procure specialist advice to assist with the process to ensure that any future recommendations are suitably robust.

4.5 Legal Implications, Access to Information and Call In

4.5.1 Legal advice is awaited with regard to any changes that may be introduced. This relates specifically to the Grand Theatre's constitution and the Charity Commission. However, it is felt that the City Council does have the powers to initiate this company restructuring should it be deemed appropriate.

4.5.2 If Members are minded to approve the recommendations contained in the report, it should be noted that there are a number of existing legal agreements in place between the Leeds Grand Theatre Company and third parties namely, Arts Council England, the Heritage Lottery Fund, Opera North and other commercial organisations the implications of which will need to be considered in greater detail to inform the option appraisal process.

4.6 Risk Management

4.6.1 The main risk with embarking on this change to the Grand Theatre's governance structure is that stakeholders and partners feel inadequately consulted. Any further detailed investigations into possible governance models will be inherently mindful of this and will consult widely with stakeholders, partners and funders.

5 Conclusions

5.1 The Grand Theatre Company represents a significant part of Leeds' cultural offer. It is clearly important to the future cultural offer of Leeds that the facilities continue to provide a rich and diverse programme of activities, but crucially achieves this in a financially sustainable way. The proposals outlined in this report will provide a timely opportunity for Members to consider the long-term governance and operational options to ensure that these important cultural assets can continue to develop and positively contribute to the City.

6 Recommendations

6.1 Executive Board is recommended to:

- i) note the current financial performance of Leeds Grand Theatre and Opera House Trust Ltd and the potential options for future governance arrangements;
- ii) give approval for the Chief Officer Culture and Sport to commence further detailed work on the proposals, including the consultation outlined with the various stakeholders, with a view to submitting further recommendations to Executive Board later in the year.

7 Background documents¹

7.1 None

¹ The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.